STATEMENT OF ECONOMIC POLICIES OF THE SLOVAK REPUBLIC

I. INTRODUCTION

1. **The government that assumed power in October 1998 inherited an economy that was highly vulnerable to crises**. Although it had grown at high rates averaging over 6 percent during 1995–98, the economy was characterized by large macroeconomic imbalances. Substantial and growing fiscal deficits—the general government deficit exceeded 5 percent of GDP in 1997–98—went hand in hand with external current account deficits of more than 10 percent of GDP. Moreover, the neglect of structural reforms affected adversely financial discipline and, in turn, led to high inter-enterprise debt. In addition, political interference in the lending of state-owned banks contributed to increasing bad loan problems, with indebtedness of the enterprise sector (including tax arrears) reaching ominous proportions.

2. **In early 1999, the government initiated a concerted effort to reduce macroeconomic imbalances and promote sustainable economic growth**. This effort was based on fiscal consolidation, the launching of long-delayed structural reforms, and the creation of a legal and institutional framework that would foster private sector activity. Considerable progress has been made in all of these areas. The fiscal and current account deficits have been reduced substantially, and the government started to implement an ambitious program of structural reforms— which included restructuring the banking sector, adopting amendments to the Bankruptcy Act, lowering the tax burden on citizens and corporations, and improving conditions for foreign direct investment. In addition, ongoing reforms to the legal framework have been aimed at enhancing rights of shareholders and creditors, and improving corporate governance, more generally.

3. **All these measures have been well received by the international community, the markets, and foreign investors**. The Slovak Republic entered into official accession negotiations with the European Union (EU) in March 2000, became the 30th member of the OECD in December 2000, and successfully tapped international capital markets to obtain financing under favorable terms. Also, during 2000, foreign investors acquired controlling interests in the telecommunications company and the Slovak Savings Bank, the largest bank in the country, and participated in several greenfield investments.

4. **In this favorable environment, the Slovak economy has begun to show increasing signs of recovery, following a period of subdued growth**. Industrial production, construction, and fixed investment have started to grow, partly in response to a considerable decline in nominal interest rates. Very strong growth of net exports combined with a pick up in domestic demand during the last quarter of the year led to GDP growth of 2.2 percent in 2000, compared with 1.9 percent in 1999. Moreover, indicators of economic activity have remained very encouraging during the first few months of 2001.

5. **The government is aware of the need to continue with reforms in several areas of the economy in order to achieve sustainable economic growth.** This Statement of

Economic Policies, which is the basis for a staff-monitored program with the IMF, addresses this challenge by outlining the government's economic priorities and goals for the years ahead, and the policies envisaged for 2001–02. The vision of the government that underlies this document is to transform Slovakia into a modern economy with high living standards, which is fully integrated into the world economy.

II. Macroeconomic Goals

6. **The priorities of the government for 2001 and 2002 are to consolidate recent gains in stabilization and accelerate economic reform with the goal of improving living standards.** In particular, the objectives are to achieve annual GDP growth rates of 3–4 percent; continue to bring inflation down; and strengthen the external position with an increase in reserves to the equivalent of more than 4 months of imports. To achieve these objectives the authorities will strengthen the underlying fiscal position in line with their medium-term objectives, advance structural reforms, and gear monetary policy toward lowering inflation.

7. **The policies envisaged under the program for 2001 are intended to set the stage for rapid private-sector-led growth and job creation in the period ahead.** To this end, the government's medium-term economic strategy intends to lay the foundation for sustained fiscal stability, focusing on measures to make the tax system more efficient and ensure continued financial discipline. In addition, the strategy calls for accelerating financial sector reforms, strengthening bank supervision, privatizing state enterprises, increasing labor market flexibility, and better targeting social policies. The authorities are also aware that promoting good governance is key to generating public support and confidence in the reform program. Under the program, these issues will be addressed largely through efforts to enhance the transparency of fiscal operations and corporate activities.

III. Financial and Structural Fiscal Policy

A. Fiscal Policy

8. **The government intends to contain the general government deficit to 3.9 percent of GDP in 2001, and aims at lowering this deficit in 2002 and beyond**.[1] The budget for 2001 contains expenditures amounting to 38.9 percent of GDP and revenues of 35 percent of GDP, which reflect the full-year impact of the reduction of the corporate income tax and the removal of the import surcharge. Further tax reductions would be undertaken only as long as they are consistent with the government's fiscal objectives. The achievement of the fiscal objectives will require strict control of expenditures, which the government intends to attain through adherence to quarterly ceilings on the total general government expenditure

[1] The general government deficit excludes the costs of bank restructuring and expenditures on called guarantees.

during 2001. These ceilings will constitute a financial benchmark under the staff-monitored program. As a general principle, revenues exceeding the budgeted amount will be used solely for covering the costs of natural disasters and the financing of additional statutory expenditures up to a maximum amount of Sk 1.5 billion (0.2 percent of GDP). Aside from these expenditures, higher-than-budgeted revenue will be applied to lower the general government deficit. Nevertheless, the government will evaluate fiscal developments by September 2001, and could decide to propose higher expenditures as long as the general government deficit remains within the ceiling of 3.9 percent of GDP. This deficit will not exceed 3.0–3.5 percent of GDP in 2002, and the government is planning further fiscal consolidation over the next several years.

9. **During 2001, the wage policy of the government will consist of moderate wage increases for public sector employees**. Wage tariffs of employees in the budgetary and extra-budgetary spheres—including teachers—will be increased by 4 percent on July 1, 2001; wages for the armed forces, by 3 percent on September 1, 2001; and teachers' wages, by an additional 3 percent on the same date. As a result, the average nominal monthly wage in budgetary and extra-budgetary organizations will rise by 6.4 percent in 2001, which is less than the anticipated growth in average wages in the economy—expected to be in the range of 9 to 10 percent. The government expects that wage growth in the private sector will not exceed gains in labor productivity, and that economy-wide real wages will rise by about 2–3 percent.

10. **The government expects substantial privatization receipts in the period ahead, which will be used to enhance fiscal sustainability**. Privatization receipts in 2001 could exceed 10 percent of GDP. These will be used to retire government liabilities, with the exception of the use of a small amount to finance development projects—Sk 1.1 billion—within the overall expenditure ceilings approved by the government. Any future privatization receipts will be used exclusively to reduce state debt and finance the planned pension reform—this will be reflected in the legislation on state debt and guarantees which will be approved by end-2001.

11. **The authorities will strictly control the issue of new state guarantees in 2001**. These guarantees were not controlled sufficiently in the past and have burdened the budget with very substantial obligations, amounting to about 16 percent of GDP. The law on state debt and guarantees will contain provisions stipulating that the stock of guarantees will fall substantially over the next several years. The policy is that new guarantees in 2001 will be used exclusively for rolling over old guarantees falling due, primarily for loans contracted by the Slovak Railways and Slovak Power Plants, and the government has set a ceiling on guarantees to be extended during the year, which constitutes a financial benchmark under the staff-monitored program. The exceptions to this policy will be guarantees for a bridge loan to

the National Property Fund amounting to € 00 million[2], an identified infrastructure project of the municipality of Bratislava amounting to Sk 1.8 billion, and Sk 4.0 billion for the Slovak Railways.

12. **The government has taken a number of steps to improve the budget process and increase fiscal transparency**. To improve fiscal management, the government will discuss the draft of the 2002 state budget in June 2001, and the 2002 budget for the general government in September 2001. These discussions will be conducted within the framework of new rules that are expected to be approved by parliament, which will prevent parliamentarians from submitting proposals that would result in an increase of the budget deficit agreed between the government and parliament. For the first time, a medium-term financial plan was included in the 2001 budget, and during 2001, the government will complete the system of fiscal analysis, models, and predictions for public sector revenue and expenditures. Other measures to enhance fiscal transparency include a cancellation of most state (nonbudgetary) funds; introduction of functional classification in the state budget, which will be extended to all the public finances by 2003; and the establishment of a state treasury system and public administration decentralization and modernization, which will be followed by fiscal decentralization. Some of these measures aim at reaching international comparability of the public finance data.

13. **The government plans to introduce a state treasury system as an instrument of overall public finance management**. It has launched a pilot project to manage expenditures within a number of units under the Ministry of Finance. During 2001 the government intends to complete a tender for the implementation of a state treasury information system, to launch the pilot testing of other project components, to include additional public sector entities into the pilot, and to establish an agency for debt and liquidity management. All functions of the state treasury system will be implemented during 2002. The government will involve, as necessary, local and regional governments in the preparation and introduction of the state treasury system.

14. **Following a decision to reform the country's public administration, the government will implement fiscal decentralization**. After the creation of regional self-governments and the transfer of competencies from the state administration bodies to regional self-governments, the government will ensure the transfer of the necessary funds and property. At the same time, the government will take measures to ensure that the general government deficit is observed, notably by obligating local and regional governments to operate on the basis of balanced current budgets. The government will control the regions' borrowing for investment purposes, including through a cap on total indebtedness. Issuance of local government bonds will be regulated by the Financial Market Office, and any

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[2] The Sk 6.5 billion of koruna-denominated bonds already issued have been primarily purchased by domestic banks and residents, and are not counted toward the external debt ceiling.

borrowing exceeding a certain ceiling to be included in the Act on Budgetary Rules will require prior approval by the Ministry of Finance. Local governments' borrowing and debt limits will be expressed as ratios to their own revenues, which will exclude transfers and grants received by higher levels of government or from abroad. The government will also take steps to improve the management capacity of regional governments and municipalities, including through technical assistance from abroad.

15. **At the same time the government will enhance financial control over all sections of the general government and state-owned enterprises.** This is key to achieving the fiscal objectives of the country. Over the period ahead the Ministry of Finance's control over the general government and state-owned enterprises will be expanded gradually, including through a review of competencies within the public sector. The Act on Financial Control will be drafted in 2001 and come into force on January 1, 2002. Under this act, all entities that manage public funds will be required to exercise stricter financial controls, and internal audit structures will be set up in state administration bodies. Starting in 2001, the Ministry of Finance and financial control bodies will supervise the management of funds provided by the EU as pre-accession assistance. All companies receiving state subsidies will be thoroughly supervised by financial control bodies. The Ministry of Finance will also have representatives on supervisory boards of companies that received state guarantees.

16. **In order to enhance fiscal control, in cooperation with the IMF and Eurostat, the government is improving public finance statistics**. The government is now concentrating on the introduction of quarterly statistics and the subsequent quarterly publication of consolidated data on public administration revenues and expenditures. Starting in 2001, data on the use of the state budget funds will be published monthly. Within the framework of cooperation with Eurostat, public finance statistics will become fully comparable to EU methodology over the next several years, and this system will be used for the quantification of the Maastricht criteria.

17. **The government's medium-term plan in the taxation area is to reduce the tax burden on individuals and align indirect taxation principles with those in the EU**. As long as this is consistent with the achievement of the government's fiscal objectives, as stated in paragraph 8, the government will reduce the tax burden on individuals effective from January 1, 2002, and will reassess the principle of taxation used for inheritance, gift, and property transfer taxes. The overall harmonization of the system of excise duties and value-added tax (VAT) with the tax regime applied in the EU will be completed by end-2003, which is the reference date for the Slovak Republic's accession to the EU, with the exception of the areas of energy, construction activities, cigarettes, and alcohol, for which it will request a five-year transitional period. The government plans to prepare the following legislation over the next year: an amendment to the VAT act introducing VAT refunds for foreigners and the application of VAT by travel agents; an amendment to the act on excise duties on wine; the introduction of tax warehouses and deposits for excise duties from mineral oils; and the taxation of intermediate products in accordance with EU directives.

18. **In 2001, the government will continue its comprehensive reform of tax administration**. The tax administration will be reorganized with the goals of reducing the number of local tax offices, introducing a single-level direct management in the tax administration, and reinforcing the management of the Central Tax Office. The government will create legislative conditions for the establishment of a unit for the detection and investigation of tax crimes, and thus strengthen the powers of the tax administration authority in detecting tax evasion and investigating tax fraud. In order to comply with the *acquis communautaire* in the field of excise duties on mineral oils and lubricants, these duties will be administered by the customs administration. In addition, drawing on technical assistance from the IMF the government will: establish a large taxpayer unit in Bratislava by December 2001; tighten VAT refund control; and improve collection enforcement.

19. **In parallel with the implementation of a comprehensive reform of the health care sector, the objective of reform measures in this sector in 2001 will be to improve the efficiency and quality of health care services, contain costs, and stop the growth in the sector's debt**. The government will take measures to enhance the efficiency of health insurance, including a review of the existing health insurance system and the establishment of a supplementary health insurance system. Moreover, it will introduce incentives in medical practices to minimize the cost of medical procedures and pharmaceuticals, provide incentives to pharmaceutical producers to reduce prices, and introduce co-payments for medical services. As part of the overall health care reform, by June 2001, the government will define an optimal network for institutional healthcare facilities, and for primary and secondary outpatient care. In this context, the Ministry of Health will ensure that no additional debts are incurred by health facilities, and that these facilities operate within the budget constraint imposed by the transfer to the health sector contemplated in the budget for 2001.

20. **In the field of education, the government will increase the efficiency in the provision of education services while striving to further improve the quality of education**. The government will submit legislation on the financing of primary and secondary schools and school establishments. This will establish financing criteria with a view to reducing the numbers of classes and schools, so as to prevent the continuing decrease in the number of students per teacher. The government will create conditions to motivate schools and school establishments to use their facilities outside the education process.
In 2001, the government will reassess the system of subsidizing the social infrastructure and separate financing of the social area from the financing of the education process, and will adopt measures aimed at eliminating improper use of “student” status. In the area of university education, the government will decide during 2001 on new ways of financing university-level study. In 2001, the government will also establish the Science and Technology Support Agency, which will help to improve the efficiency of the financing of science by the state.

21. **In 2001, the government will prepare substantial changes to social insurance, which includes pension, sickness, and injury insurance, in order to provide incentives to contain costs while ensuring legitimate access to benefits**. By the end of 2001, the

government will adopt a social insurance act, which will come into force from January 1, 2003. Under the new system, short-term sickness benefits will be paid by employers, with the goal of increasing their motivation for stricter control for abuses of the system. During 2001 and 2002 the government will tighten the control over the provision of sickness benefits. Injury insurance, currently administered by the commercial insurance company Slovenská poisťovňa, will be transferred to the Social Insurance Agency.

22. **The social insurance act will also substantially improve the financial situation of the current pension insurance system and prepare it for the comprehensive pension reform**. The act will specify a timetable for the gradual increase of the retirement age, which will also involve a reduction of the difference between the retirement age for men and women. In 2001, the government will change the current system for the setting of pensions to ensure that these are decided within the budget cycle. The government will make certain that any increase in pensions in 2001 is done within the approved general budget deficit target. Under no circumstances will such an increase be financed through increasing the budgeted transfers to the Social Insurance Agency, which will remain at the same level under the 2002 state budget. During 2001, the government will also start work on a model for a second pillar of pension insurance, under which the insured individuals will contribute to personal accounts that will be administered by managers of their choice. The relevant act, which is expected to come into force on January 1, 2004, will be approved during the first half of 2002.

23. **The government will streamline the operations of the Social Insurance Agency and strengthen the collection of contributions.** Following a thorough audit of the Social Insurance Agency's operation, its new management will propose concrete measures to improve the efficiency of the use of the Agency's administrative fund by the end of 2001. In 2001, the government will start the implementation of the project for unified collection of contributions, which is being prepared in cooperation with the World Bank. Under this project, the collection of contributions, currently separately collected by the National Labor Office (NLO) and the Social Insurance Agency, will be combined. At the same time, personal accounts of individual insured citizens will be created, which will improve significantly the efficiency of administration of the collection of contributions. Within the framework of the project for unified collection of contributions, the information systems of the NLO and Social Insurance Agency will be linked to the system of local state administrations, which administers social assistance benefits. This will increase the efficiency of the provision of state social benefits and reduce the scope for abuse.

24. **In the field of social assistance, the government plans to bring the costs of the system gradually into line with scarce fiscal resources through better controls, tightening of eligibility for benefits, and revisions to legislation**. The automatic indexation of social benefits due to material need has been eliminated, eligibility criteria for financial benefits to compensate the social impact of severe disability have been made stricter from January 1, 2001, and the level of certain benefits has been adjusted downward. In 2001, a number of social service establishments subordinated to local state administrations will be transferred to municipalities and non-state entities. The government will monitor regularly

social system expenditure, and if developments indicate that the budgeted volume is being exceeded, it will take measures to contain expenditure. During 2001, the government plans to improve the administration of social benefits, to minimize improper access to these benefits. By June 2001, the government will adopt a comprehensive package of measures to restrict the informal hiring of workers—without paying the relevant contributions. The amendment to the employment act, which will be approved by the government by September 2001, will also contain provisions aimed at restricting such hiring practices.

25. **A major reform of rail transport is underway.** Under this reform, the current railway company, Železnice Slovenskej Republiky (ŽSR), will be divided into two separate entities by July 1, 2001. ŽSR will retain the railroad, while all transport and trade activities will be transferred to a newly created joint-stock company. This step will create conditions for the liberalization of rail transport. Freight and passenger transport will be operated separately in the newly created joint-stock company and with the further objective of creating two separate companies. The government will cover losses incurred as a result of regulated prices in passenger transport on the basis of contracts on services in the public interest. The volume of these subsidies will be gradually reduced. The state will cease to subsidize the special standard inter-city and euro-city trains in 2001. In 2000, the government defined regional routes, and in 2001 it will approve a transformation project for all loss-making routes so as to reduce losses, through route cancellations or transfer to local governments. The number of employees in rail transport will be reduced by 4,135 in 2001 out of a total of 48,000 in 2000. By June 30, 2001 the government will make the final decision on how to resolve the financial relations between the state and ŽSR. The solution will specify that the rail company can use the funds obtained from the state for unpaid services from the past only to reduce its debts. The provision of these funds will also be conditional upon the observance of the reform timetable and transformation programs.

26. **The government also plans to reform the bus transport system**. By the end of September 2001, the government will approve regulations to boost the efficiency of state subsidies provided for bus transport. Under this amendment, a public tender will have to be called for every subsidy exceeding Sk 1 million per year, and the state will stop providing subsidies for routes exceeding 100 kilometers in 2001. Bus transport has also been prepared for privatization, and by the end of 2001 the government will sell 49 percent of shares in the majority of the Slovak bus transportation companies.

27. **The government will continue adjusting and liberalizing administered prices with the goals of correcting distortions, eliminating cross subsidies in public utility services, and covering long run costs**. Administered prices were adjusted on average by 17 percent on February 1, 2001. These prices in the areas where prices remain below cost will continue to be adjusted over the next several years, in order to reach full cost recovery. The government plans to approve increases in administered prices that remain under its purview as part of the state budget drafting process, and price increases will usually take effect on January 1 of every year. The subsidies to heating prices will be phased out completely in 2001. From January 2002, administered prices in the energy sector will be regulated by the independent regulatory authority referred to in paragraph 32.

B. Monetary Policy

28. **Monetary policy will be aimed at sustaining the disinflation effort**. With continuing fiscal restraint, anchored by a strict expenditure ceiling and only moderate increases in wages, the National Bank of Slovakia (NBS) does not see significant inflationary pressures ahead. Nevertheless, it will monitor carefully the growth of net domestic assets of the banking system, and be cautious about further cuts in interest rates until there is more concrete evidence of a substantial decline in actual and expected inflation. The NBS will also monitor closely the developments in demand and price pressures, and in liquidity, particularly increases in liquidity associated with the payments of National Property Fund bonds toward the second half of the year, and will be ready to raise interest rates if necessary. With respect to the exchange rate, the authorities do not see problems of competitiveness coming from the value of the koruna. The NBS intends to intervene in the market exclusively to avoid significant short term oscillations in the rate of the koruna vis-à-vis the euro, while not opposing long-term trends of the Slovak currency. The central bank has established an indicative band for inflation for 2001 (Table 2), and if inflation approaches the limits of the band, it will take action to reassess its policies, including consultation with the IMF, and will adjust policies as necessary. The NBS envisages that inflation will continue to fall in 2002.

IV. Other Structural Reforms

A. Banking Sector Reform

29. **The restructuring of the banking sector and privatization of state-owned banks remain a priority for the government**. With assistance from the World Bank the government restructured the three largest state-owned banks, Všeobecná úverová banka (VUB), Investičná a rozvojová banka (IRB), and Slovenská sporiteľňa (SLSP), during 2000, including by re-capitalizing them through an injection of Sk 18.9 billion, and removing from their balance sheets impaired loans totaling Sk 105 billion. The restructuring of these banks, the entry of foreign investors into several smaller banks (Poľnobanka, Prvá komunálna banka), the assumption of Priemyselná banka by SLSP, and the liquidation of three smaller weak banks (AG Banka, Slovenská kreditná banka and Dopravná banka) contributed to the stabilization of the Slovak banking sector in 2000. SLSP was privatized in 2000 and VUB is expected to be privatized during the first half of 2001. The health of the financial sector will be further reinforced in 2001 through the privatization of the remaining state-controlled banks, notably IRB and Poštová banka by end-2001, and of Slovenská poisťovňa, an insurance company, by end-2001, and by the legislative and institutional strengthening of bank supervision.

30. **A new banking act, which will strengthen bank supervision, will enter into force in July 2001**. The act is consistent with European Union directives, follows recommendations from the World Bank and the IMF, and incorporates the 25 basic Basel Committee principles of effective bank supervision. The act extends the responsibility of members of banks' supervisory boards and statutory bodies, and creates legislative conditions for the application of prompt corrective actions to problem banks. It also contains best-

practice standards for accounting, statistics, and publication of banking data, strict requirements for bank cooperation with supervisors, and the legislative basis for supervision on a consolidated basis and for monitoring of market risks.

31. **The institutional strengthening of banking supervision will be based on the application of a plan agreed upon with the World Bank, which contemplates a proactive approach in this area**. The bank supervision authority will prepare and adopt a multi-year plan to further develop the banking supervisory process to raise standards and procedures in this area to an international, best practice level (BIS, EU, OECD). A new, proactive approach to banking supervision will be adopted to improve the internal governance of banking supervision, with better management oversight, direction, accountability, and documentation. This vision will be prioritized and carried through to a mission statement, operating policies and procedures, and the practical implementation of the new bank supervisory approach. The implementation of the new approach will start in 2001, and initially be monitored through benchmarks under the Enterprise and Financial Sector Adjustment Loan from the World Bank and the IMF staff-monitored program (Table 3). The government will decide on the institutional location of bank supervision by May 2001.

B. Energy Reform

32. **The energy sector will be reformed with the goal of creating conditions for improving the sector's efficiency and the development of a competitive environment.** The government envisages the establishment of an independent regulatory authority by January 1, 2002. During an initial period this authority will cover the areas of gas, electricity, and heat production, with the regulation of certain other network sectors to be transferred to this authority in the future. The domestic electricity market will be liberalized by July 1, 2001 for the group of large authorized end-users whose annual consumption exceeds 500 GWh. A further liberalization in the electricity sector is envisaged, lowering this limit to 100 GWh in 2002 and to 40 GWh in 2003. A full liberalization of the sector, including foreign suppliers, is envisaged for 2007. With respect to the gas sector, in 2002, the government plans to liberalize the sector for customers with consumption exceeding 25 million m^3 annually and for all producers of electricity from gas regardless of their level of consumption. This limit will be lowered to 15 million m^3 in 2003 and 5 million m^3 in 2004.

C. Privatization of State-Owned Enterprises

33. **The government's goals in this area are to divest itself from substantial holdings in the gas and electricity companies, and in the oil transportation company**.

- ***The Slovak gas company (SPP) will be privatized by December 2001***. The sale of 49 percent of its shares is the largest privatization project in Slovak history. The privatization adviser was selected through an international tender in December 2000. In March, the Privatization Ministry submitted the project for the privatization of SPP to the government, and on May 1st this state-owned enterprise was transformed into a joint-stock company. Its restructuring will leave the enterprise's integrated structure unchanged; however, transit, distribution, and sales will be divided transparently with regard to accounting and organization. The privatization tender will be announced by September 2001.

- ***A major reform of the electricity sector in 2001 will aim at transforming the sector before privatizing its assets***. By end June 2001, the grid, which is a natural monopoly, will be separated from the electricity company to become a separate joint-stock company. Simultaneously, heating plants, currently part of Slovenske Electrarne (SE), will be separated from it. Thus, only electricity generation will remain under SE after July 1, 2001. The tender for the selection of advisers is expected by this summer, and the company's privatization will start in 2002. As part of this process, the government has decided to separate the Gabčíkovo hydroelectric plant from SE, and in consultation with its advisers will make a final decision on whether to further divide SE into individual generating companies or selling it as a unit. The transformation in the field of distribution will be launched on July 1, 2001, when, as noted, heating plants will be separated from distribution companies, and the new units will be transformed into joint-stock companies. The process of privatization of 49 percent of shares in each of the three distribution companies will start during the second half of 2001.

- ***By the end of 2001, the Government intends to sell 49 percent of Transpetrol's shares***.

D. Corporate Governance and the Business Environment

34. **As part of the restructuring of enterprises and banks, the government has enhanced creditor rights and shortened bankruptcy proceedings, and intends to reinforce the financial discipline of enterprises**. With this in mind, after amending the bankruptcy law in June 2000, the government plans to reform the lien and other laws. The amended bankruptcy law provides an instrument for the settlement of old debts, which are substantial and remain uncollected, within a court-administered bankruptcy procedure. This law also enables enterprises or their viable parts to continue operating even after the start of bankruptcy proceedings, which was not possible before the amendment of the law entered into force. The government has set up a commission for the preparation of a new bankruptcy law over the next 18 months, which will take into account the practical experience with the implementation of the June 2000 amendment. The government intends to establish a central register of liens, and extend the use of liens to movable property, which will be of practical importance for small and medium-size enterprises. Further legal norms, including taxation laws, will be modified over the next two years, with a view to creating the legislative conditions for out-of-court settlements between debtors and creditors.

35. **The government is aware that a stable, transparent, and predictable legal and institutional environment is a key prerequisite for development and economic growth**. Therefore, in addition to the aforementioned laws and amendments, the government is

preparing a number of other systemic changes in the legal and institutional framework. The most important comprise an amendment to the Commercial Code and a new Securities Act. The amendment to the Commercial Code, based primarily on the need to harmonize Slovak company law with that of the European Union, was submitted to the formal legislative procedure in February 2001. Moreover, the amendment aims at incorporating OECD principles of corporate governance to Slovak law and institutional conditions. The proposed changes will define more clearly and expand directors' and officers' liability; expand disclosure obligations of companies; and improve the protection of shareholders, including minority shareholders. The proposed changes to the regulation of the commercial register will increase the transparency of commercial relations. Procedures for increasing and decreasing the base capital in stock companies have also been revised. Following the approval of the legislative changes, which is expected in 2001, the standards of the Slovak Republic legal framework for corporate governance should approximate those of other OECD countries. The new Securities Act, which will be submitted to the legislative process in May 2001, will incorporate the principles of EU securities law into the Slovak legal system. Together with the new Act on Collective Investment and the establishment of the new Joint Supervisory Authority in 2000, the Securities Act will be another important norm for the completion of the institutional environment for the development of the Slovak capital market. The government will make a concerted effort to improve the court system, particularly its transparency and speed, in order to ensure the effective implementation of all of this legislation. This effort will include intensive training of judges with technical assistance from abroad.

36. **The government intends to improve the business environment and promote foreign direct investment**. Some efforts in this area have been focused on reducing the income tax rate for both corporations—from 40 percent to 29 percent—and individuals. In addition, under the Income Tax Act, a legislative framework for the entry of foreign direct investment was created through the establishment of a tax credit for new investors. In order to support small businesses and simplify the administration of the tax system, the government has introduced a turnover tax with a rate of 2.0-2.5 percent. Moreover, to stimulate investment, the government has exempted the import of machinery and equipment from import tariffs effective from July 1, 2000, and has sent to Parliament an act on the establishment of industrial parks. To promote foreign investment, the government has established SARIO, a one-stop investment center. For the support of small and medium enterprises, which the government considers key in the future development of Slovakia, a number of state programs are administered by the Slovak Guarantee and Development Bank and the Small and Medium Enterprise Support Agency.

37. **After identifying the differences between national and international accounting and auditing standards, the government will create practical and legal conditions for the progressive application of international accounting standards in the Slovak Republic**. The Slovak Republic has joined an UNCTAD and IFAD international project for the reinforcement of national accounting and statistics systems and participates in the International Accounting Standards Committee. A commission has been set up, which will elaborate an analysis of the differences between Slovak Accounting Standards

and International Accounting Standards by mid-2001. Amendments to the laws on accounting and auditing will be prepared in 2002 on the basis of this analysis. They are expected to enter into force on January 1, 2003 and will ensure the harmonization of Slovak legal norms on accounting with EU directives and international accounting standards.

E. Labor Market Reform

38. **The government will take resolute steps aimed at reducing unemployment**. While structural policies that encourage private sector development, particularly foreign direct investment and growth of the SME sector, will have a positive effect on employment, the government will also address the unemployment issue through measures to increase labor market flexibility. This will be accomplished through the promotion of a variety of alternative work arrangements, including part-time and temporary jobs, and greater geographic mobility of the labor force. The government expects that the rationalization of the system of social benefits will create conditions for motivating job search. Moreover, the National Employment Plan, adopted by the government in November 2000, envisages a number of targeted measures that should improve the employability of particular groups, such as the long-term unemployed, the young, recent graduates, the disabled, and ethnic minorities.

F. Agricultural Policy

39. **During 2001–02, the government will implement a number of steps aimed at harmonizing the Slovak agricultural policy with the European Union's Common Agricultural Policy**. By June 2001, the government will approve the act on the intervention agency and organization and support of agricultural markets, on the basis of which the intervention agency will be established on January 1, 2002. Thus, a new system for the regulation of the agricultural commodity market compatible with instruments used in the EU will start to function in the Slovak Republic from this date. Between 2001 and 2003, the government will gradually prepare and test new features of organizing the key food commodity markets, which will liberalize commerce in this area and conform to EU rules. By June 2001, the government will prepare market rules for milk, cereals, sugar, and wine; fruit and vegetables will be added in 2002. A special system for the financing of agriculture, which will partially replace direct state subsidies to agriculture through interest subsidies for commercial loans, will start to be applied from the beginning of 2002. With the aim of improving the efficiency of subsidies and in the interest of enhancing the performance of agriculture, the government will gradually complete the control system for the provision of subsidies and improve its efficiency. In 2001, the SAPARD Agency will be completed in line with EU legislation requirements.

V. PROGRAM MONITORING

40. **Progress in the implementation of policies under this program will be monitored through quarterly quantitative and structural benchmarks**. The government is requesting the IMF to post this Statement of Economic Policies on the IMF website. In turn, it will post

the Slovak and English language versions of the statement on its own website, and has asked the IMF staff to monitor developments and progress under the program over the next 12 months, including through periodic visits to Slovakia. The government will issue a quarterly or semi-annual—depending on the timing of IMF staff visits—public report of the Fund staff's assessment of performance under the IMF staff-monitored program—the mission's preliminary concluding statement. The quantitative framework to be monitored under the program will include quarterly limits on: (i) the cumulative deficit of the consolidated general government; (ii) general government expenditure; (iii) public and publicly-guaranteed external borrowing; (iv) net domestic assets of the banking system; and a quarterly floor on (v) increases in net international reserves of the NBS. Tables 1 and 3 present the program's quantitative and structural benchmarks, respectively, and Table 2 presents a consultation band for inflation under the program. Table 4 contains the selected economic and financial indicators.